

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF WASHINGTON
AT SEATTLE

TIMELINE, INC.,

Plaintiff,

v.

PROCLARITY CORPORATION, et al.,

Defendants.

No. C05-1013JLR

ORDER ON MICROSOFT'S MOTION
FOR SUMMARY JUDGMENT AND
FOR DISMISSAL OF STATE-LAW
CLAIMS

I. INTRODUCTION

This matter comes before the court on Defendant Microsoft Corporation's motion for summary judgment and for dismissal of state-law claims. (Dkt. # 231). Having considered the papers filed in connection with the motion and finding this matter appropriate for disposition without oral argument, the court GRANTS Microsoft's motion.¹ The court finds that Plaintiff Timeline, Inc.'s purported termination of its 1999 Patent License Agreement with Microsoft is not effective and that the 1999 agreement remains in force. Because Microsoft holds a license under the 1999 agreement to the patents at issue in this case, Plaintiff's claims against Microsoft for patent infringement are DISMISSED with prejudice.

¹ Although Defendant Microsoft Corporation requested oral argument in the manner prescribed by Local Civil Rule 7(b)(4), Plaintiff Timeline did not do so.

Pursuant to 28 U.S.C. § 1367(c), the court also declines to exercise supplemental jurisdiction over the remaining state-law claims and counterclaims between Timeline and Microsoft. The remaining state-law claims and counterclaims in this action are DISMISSED without prejudice.

The reasons for the court's order are stated below.

II. BACKGROUND

This is a dispute over software patents and licensing agreements. Plaintiff Timeline filed this action on June 3, 2005 against Defendant ProClarity Corporation. Timeline's original complaint raised claims against ProClarity for infringement of five related patents: U.S. Patent Numbers 5,802,511 (the "511 patent"), 6,023,694 (the "694 patent"), 6,026,392 (the "392 patent"), 6,625,617 (the "617 patent"), and 6,631,382 (the "382 patent").

On September 28, 2006, the court granted an unopposed motion by Timeline to file a second amended complaint (SAC) that added claims for patent infringement and breach of contract against Microsoft Corporation. In response, Microsoft brought a number of counterclaims against Timeline, including a request for a declaratory judgment that Timeline's purported termination of a 1999 Patent License Agreement between the parties was ineffective.

The dispute between Microsoft and Timeline stems from a long history, which the court summarizes briefly below. For the purposes of the pending summary judgment motion, Microsoft has not challenged most of the factual allegations in Plaintiff's second amended complaint.

A. 1995 SBFM Agreement

In its second amended complaint, Timeline alleges that it invented database software in the fall of 1994 that, among other things, could automatically extract information about the data structure of an existing database and use that information to design and create a new database. In June 1995, before the patents-in-suit had issued, Microsoft and Timeline entered into a Software Development and License Agreement. Under the 1995 agreement, Microsoft licensed source code developed by

1 Timeline, which Microsoft incorporated in a product called Small Business Financial Manager
2 (SBFM). The 1995 agreement is referred to by Microsoft as the “SBFM Agreement.”

3 The SBFM Agreement included a non-competition clause that restricted Timeline’s ability to
4 market a product similar to SBFM. The agreement also required Microsoft to deliver updated source
5 code and user information for SBFM if Microsoft ceased marketing the product. In the SAC,
6 Timeline alleges that Microsoft breached its obligations under the 1995 agreement by failing to
7 provide Timeline with the last version of the source code and a list of end users for the SBFM.

8 B. 1999 License Agreement

9 In September 1998, Timeline obtained the ‘511 patent, which is described as a “data retrieval
10 method and apparatus with multiple source capability.” After the patent issued, Microsoft and
11 Timeline disputed whether Microsoft’s forthcoming SQL Server 7.0 application release would infringe
12 one or more claims of the ‘511 patent.

13 Following extensive negotiations between the parties in which both sides were represented by
14 counsel, Microsoft and Timeline entered into a Patent License Agreement (“License Agreement”) on
15 June 1, 1999. Under this agreement, Microsoft obtained a license to the ‘511 patent and to “all other
16 patents and patent applications filed as of the Effective Date that are owned, controlled or licensable,
17 in whole or in part, by Timeline relating to the subject matter thereof.” Microsoft maintains that the
18 1999 License Agreement covers all five patents at issue in this case. Timeline does not dispute this
19 point.

20 Section 2.1 of the License Agreement provides that “Timeline hereby grants to Microsoft . . . a
21 non-exclusive, perpetual, irrevocable, fully paid, worldwide right and license” to the licensed patents.
22 Section 3 of the agreement also provides that “Timeline hereby irrevocably and without fee covenants
23 not to sue and releases, acquits and forever discharges Microsoft, its Subsidiaries and Affiliates from
24
25

any and all claims of Infringement of the Licensed Patents . . . occurring before, on or after the Effective Date of this Agreement.² Section 4 of the agreement states:

4.1 In consideration of the license granted under Section 2, Microsoft:

- (a) shall pay Timeline, within 48 hours of the execution of this Agreement, a fully paid-up, non-refundable license fee of Five Million Dollars (US \$5,000,000);
- (b) shall enter into a Seventh Amendment with Timeline to [the 1995 SBFM Agreement], concurrently with the Effective Date hereof; and
- (c) shall afford to Timeline “Partner” status in the Microsoft Solution Providers program (or its successors or equivalents) for a period of 60 calendar months starting June 1, 1999. As such, Timeline shall be entitled during such period to all the rights and privileges associated with such status, most particularly development software and support and marketing support as is then normal and customary for firms of such status under Microsoft’s then-standard program (or its successors or equivalents).

It is undisputed that Microsoft: (1) paid Timeline \$5,000,000; (2) entered into a Seventh Amendment to the 1995 SBFM Agreement, which eliminated the non-competition provisions imposed under that agreement on Timeline; and (3) enrolled Timeline as a “Partner” in the Microsoft Solution Providers program for sixty months. However, Timeline asserts in the SAC that Microsoft breached its obligation to provide adequate marketing support under the Solution Providers program.

C. State Court Litigation Regarding 1999 License Agreement

Shortly after the 1999 License Agreement was executed, a dispute arose between the parties regarding the protection the agreement provided to Microsoft licensees. Microsoft argued that the agreement permitted Microsoft licensees “to add code and software to Microsoft products, even if the resulting combination infringes Timeline’s patent, as long as the code or software added does not independently infringe Timeline’s patent.” Microsoft Corp. v. Timeline, Inc., 2002 WL 339338 at * 4 (Wn. App. Mar. 4, 2002). Timeline maintained that the agreement “prohibited Microsoft customers from combining their own code or software with Microsoft products if the added code performed a

² The agreement defines “Infringement” as including direct infringement, contributory infringement, and inducement to infringe.

1 step in the patented process and the resulting combination infringed Timeline's patent." Id. Microsoft
2 filed a declaratory judgment action in state court regarding this dispute. Although Microsoft prevailed
3 at the trial court level, the Washington Court of Appeals ultimately ruled in favor of Timeline. Id. at *
4 8.

5 D. This Litigation and Timeline's Purported Termination of 1999 License Agreement

6 In June 2005, Timeline filed this lawsuit against Defendant ProClarity, alleging infringement of
7 the '511 patent and related patents. When the suit was filed, ProClarity was an independent software
8 vendor that developed software that worked in conjunction with Microsoft products. Microsoft was
9 not named as a defendant in the original complaint.

10 In September 2005, ProClarity and Microsoft entered into an agreement in which Microsoft
11 agreed to support and assist ProClarity in the defense of this suit and to pay up to \$500,000 of
12 ProClarity's defense costs. The agreement stated that the two companies "have a strong business
13 interest in eliminating invalid and unenforceable patents that serve as potential alleged roadblocks or
14 tollgates in the way of companies like ProClarity that develop and sell software for use in conjunction
15 with Microsoft products." In the spring of 2006, Microsoft acquired ProClarity.

16 On August 18, 2006, Timeline sent a letter to Microsoft that purported to terminate the 1999
17 License Agreement. The letter stated:

18 By this letter, Timeline, Inc. provides notice that it has terminated the Patent License
19 Agreement dated June 1, 1999 between Microsoft Corporation and Timeline, Inc. Timeline
20 terminates because Microsoft has materially breached and repudiated its obligations under the
21 Agreement, including but not limited to paragraphs 2.2, 4.1, the acknowledgment that Timeline
is the owner of the licensed patents, and the implied covenant of good faith and fair dealing.
Microsoft has violated the spirit of the Agreement as well as the letter of the Agreement by
continually taking steps to deprive Timeline of the benefit of its bargain.

22 The same day, Timeline filed a motion in this court to amend its complaint to add claims for patent
23 infringement and breach of contract against Microsoft, which the court granted as unopposed. (Dkt. #
24 184). The amended complaint alleges a number of breaches of the 1995 SBFM Agreement and the
25 1999 License Agreement.

1 Microsoft has now moved for summary judgment, stating that it “seeks summary judgment in
2 its favor on Timeline’s patent-infringement claims and on the portion of Microsoft counterclaim
3 relating to the continuing validity of the License Agreement and the license.” Microsoft also requests
4 that the court decline supplemental jurisdiction over state-law claims pursuant to 28 U.S.C. § 1367(c).

5 III. ANALYSIS

6 On a summary judgment motion, the court must draw all inferences from the admissible
7 evidence in the light most favorable to the non-moving party. Addisu v. Fred Meyer, Inc., 198 F.3d
8 1130, 1134 (9th Cir. 2000). Summary judgment is appropriate where there is no genuine issue of
9 material fact and the moving party is entitled to a judgment as a matter of law. Fed. R. Civ. P. 56(c).
10 The moving party bears the initial burden of showing the absence of a genuine issue of material fact.
11 Celotex Corp. v. Catrett, 477 U.S. 317, 323 (1986). Once the moving party has met its burden, the
12 opposing party must show that there is a genuine issue of fact for trial. Matsushita Elec. Indus. Co. v.
13 Zenith Radio Corp., 475 U.S. 574, 586 (1986). The opposing party must present significant and
14 probative evidence to support its claim or defense. Intel Corp. v. Hartford Accident & Indemn. Co.,
15 952 F.2d 1551, 1558 (9th Cir. 1991). When confronted with purely legal questions, the court does
16 not defer to the non-moving party.

17 A. Timeline’s Termination of Microsoft’s License

18 In the 1999 License Agreement, Timeline granted Microsoft a “perpetual, irrevocable, [and]
19 fully paid” license to the patents at issue in this case. Timeline also “irrevocably and without fee”
20 covenanted not to sue and “release[d], acquit[t]ed, and forever discharge[d]” Microsoft from “any and
21 all claims of Infringement of the Licensed Patents.” Pursuant to the agreement, Microsoft paid
22 Timeline a “non-refundable” \$5,000,000 license fee. However, Timeline purported to terminate the
23 1999 License Agreement in August 2006, based on allegations that Microsoft had “materially
24 breached and repudiated its obligations under the Agreement.”
25

Timeline argues that under common-law contract principles, it was entitled to terminate the 1999 License Agreement in the event of a material breach. Microsoft argues that because the License Agreement granted Microsoft an “irrevocable,” “perpetual,” “fully paid,” and “non-refundable” license to the patents, the plain language of the agreement prevents Timeline from terminating Microsoft’s license, even in the event of a material breach of the License Agreement.

The 1999 License Agreement provides that the contract shall be construed in accordance with Washington law. Neither party has pointed to Washington case law that addresses whether an “irrevocable,” “perpetual,” or “fully paid” license may be terminated due to a material breach of a licensing agreement. As a result, the court must look to general principles of Washington law.

Under Washington contract law, courts generally “give undefined terms their ‘plain, ordinary, and popular’ meaning,” which “may be ascertained by reference to standard English dictionaries.” Wm. Dickson Co. v. Pierce County, 128 Wn. App. 488, 493 (2005). Unambiguous contract terms are interpreted as a question of law. Id. “An ambiguous provision is one fairly susceptible to two different, reasonable interpretations.” Id. at 493-94. Whether a contract term is ambiguous is a question of law. Paradise Orchards Gen. P’ship v. Fearing, 122 Wn. App. 507, 517 (2004).

In this case, the court finds that the term “irrevocable” is not ambiguous.³ Looking to standard dictionaries, the term “irrevocable” may be defined as “not to be revoked or recalled; unable to be repealed or annulled; unalterable.” Random House Unabridged Dictionary 1010 (2d ed. 1993). The ordinary meaning of the term supports Microsoft’s argument that its license to the Timeline patents may not be revoked under any circumstances, even if there is a material breach of the agreement. By contrast, Timeline’s proposed construction would not be consistent with the ordinary meaning of the term because it would effectively alter the term to mean “irrevocable – except in the event of breach.”

³ The terms “perpetual,” “fully paid,” and “non-refundable” are also unambiguous.

Despite the ordinary meaning of the term, Timeline suggests that “irrevocable” is used in the contract to convey that the licenses are not terminable at will and should not be interpreted to restrict Timeline’s ability to terminate the licenses due to a material breach. As Microsoft notes, however, the licenses would not have been terminable at will even if the agreement had excluded the term “irrevocable.” The agreement provided that “[t]he term of the licenses and covenants granted herein shall be from the Effective Date of this Agreement until the expiration of the last to express rights of the Licensed Patents.” Under Washington law, this provision would mean that the licenses were not terminable at will. See, e.g., Kwik-Lok Corp. v. Pulse, 41 Wn. App. 142, 148 (1985) (“If a reasonable period of duration can be implied from the circumstances, the contract is not terminable at will until the lapse of such reasonable time . . .”) (quoting Cromwell v. Gruber, 7 Wn. App. 363, 366 (1972)). As Microsoft suggests, the use of the word “perpetual” would also be sufficient to express an intent that the licenses were not terminable at will.

Under Washington law, a court must strive to give effect to all provisions in a contract and to give meaning to every term. As the Washington Supreme Court has held:

In construing a contract, a court must interpret it according to the intent of the parties as manifested by the words used. Courts can neither disregard contract language which the parties have employed nor revise the contract under a theory of construing it. An interpretation of a writing which gives effect to all of its provisions is favored over one which renders some of the language meaningless or ineffective. This should especially be true when the writing is the product of a long period of negotiation with both parties having been represented by competent counsel.

Wagner v. Wagner, 95 Wn.2d 94, 101 (1980) (internal citations omitted); see also Bogomolov v. Lake Villas Condo. Ass’n of Apt. Owners, 131 Wn. App. 353, 361 (2006) (“When interpreting a document, the preferred interpretation gives meaning to all provisions and does not render some superfluous or meaningless.”); Diamond B Constructors, Inc. v. Granite Falls Sch. Dist., 117 Wn. App. 157, 165 (2003) (“We must construe a contract to give meaning to every term.”). In this case, there is no dispute that the 1999 License Agreement was the product of lengthy negotiations in which both sides were represented by competent counsel. Under these circumstances, the court must conclude that the

1 parties did not intend the word “irrevocable” to be used in a manner that would render the term
2 meaningless or superfluous.

3 Timeline also points to Section 237 of the Restatement (Second) of Contracts for the general
4 proposition that a contracting party’s material breach of an agreement discharges the other party’s
5 obligations and permits the other party to terminate. See also Jacks v. Blazer, 39 Wn.2d 277, 285
6 (1951) (“a breach or non-performance of a promise by one party to a bilateral contract, so material as
7 to justify a refusal of the other party to perform a contractual duty, discharges that duty.”). However,
8 the Restatement also notes that this rule is “subject to variation by agreement of the parties.” 2
9 Restatement (Second) of Contracts § 237 cmt. a. In this case, the parties’ unqualified use of the term
10 “irrevocable” must be read to preclude Timeline from terminating Microsoft’s license under any
11 circumstances, even in the event of a material breach.

12 To support its interpretation of the agreement, Timeline notes that one commentator has
13 opined that “[w]e understand these terms [irrevocable or perpetual] to mean that, insofar as the parties
14 can create this situation by contract without offending overriding public policy norms, the license
15 cannot be terminated by the licensor or otherwise ended except for breach by the licensee.” Raymond
16 T. Nimmer & Jeff Dodd, Modern Licensing Law § 9.16 (2006). However, this understanding is not
17 uniformly held among commentators. For example, another commentator notes that “[o]ften a license
18 is of such critical value to an enterprise or an undertaking that the prospective licensee may seek to
19 make the license irrevocable despite nonpayment or other material breach.” Id. The commentator
20 observes that “there are a variety of ways of achieving irrevocability” and that “[t]he simplest is to
21 simply provide that: **The license conferred under this Agreement shall be perpetual and**

1 **irrevocable.**”⁴ 3 Roger M. Milgram, Milgram on Licensing § 27.03 (2007) (emphasis in original).

2 That is essentially what Microsoft and Timeline did in this case.

3 Timeline also points to two federal court decisions to support its contention that an
4 “irrevocable” and “perpetual” patent license may be terminated due to a material breach by the
5 licensee: Dow Chemical Co. v. United States, 226 F.3d 1334 (Fed. Cir. 2000), and Nano-Proprietary,
6 Inc. v. Canon, Inc., 2007 WL 628792 (W.D. Tex. Feb. 22, 2007). However, neither case was decided
7 under Washington law, nor did either case discuss the meaning of these phrases. In addition, as
8 Microsoft notes, neither case describes the remaining substantive content of the license agreements in
9 detail, nor do these cases describe exhaustively what other testimony or evidence may have been given
10 in those particular cases to have caused the parties not to raise or the courts not to address issues
11 similar to the issue before this court. As a result, these cases do not have precedential value in
12 interpreting Washington law and have limited persuasive value in interpreting the agreement before
13 this court.⁵

14 Timeline’s earlier conduct in this litigation also tends to support Microsoft’s interpretation of
15 the agreement. Before Microsoft was added as a defendant in this action, Timeline filed a motion to
16 compel production of certain communications between Microsoft and ProClarity. In connection with
17 that motion, Timeline suggested that the License Agreement insulated Microsoft from potential
18 liability for patent infringement, stating that “Timeline granted Microsoft a covenant not to sue. Thus,

20 ⁴ In addition to the “simplest” method set forth above, this commentator notes that “there
21 other ways to achieve irreovacability,” such as “provid[ing] that in the event of any breach by the
22 licensee, the licensor would be limited to remedies at law and would have no right to terminate or
23 rescind the contract.” Id. However, this commentator does not suggest that a limitation of remedies
provision is required to achieve irrevocability of a license in the event of a breach.

24 ⁵ As Timeline notes, the Dow Chemical case also involved situation in which the licensee
25 completely repudiated a license agreement by failing to make any payments under the agreement. By
contrast, there is no dispute that Timeline received a “non-refundable” \$5,000,000 payment under the
1999 License Agreement.

1 Microsoft is not liable even if it induces its customers to infringe” (Dkt. # 90 at 2). At best, it
2 would have been misleading for Timeline to offer this unqualified assurance if it believed that the 1999
3 License Agreement could potentially be terminated for material breach. At the time Timeline made
4 this representation, a number of the alleged breaches had already occurred, such as Microsoft’s alleged
5 failure to provide marketing support to Timeline under the Solution Provider program between 1999
6 and 2004.

7 Finally, Timeline points to the declaration of Emmett Murtha, who is identified by Timeline as
8 its licensing expert. Mr. Murtha worked for IBM Corporation for 35 years, including 12 years as
9 IBM’s Director of Licensing. After leaving IBM in 1997, he founded a consulting firm in which he
10 assists clients in developing and licensing intellectual assets. Mr. Murtha testifies that he has
11 participated in negotiating and drafting hundreds of patent licenses. He asserts that “irrevocable” and
12 “perpetual” are terms of art in the field of patent licensing that are commonly understood to convey
13 that a license is not terminable at will, rather than to restrict the licensor’s right to cancel the license in
14 the event of breach. Mr. Murtha states:

- 15 11. In the field of patent licensing, certain terms constitute “terms of art.” That is, they
16 have a meaning and purpose that is commonly understood to persons who practice in
17 the area of negotiating and drafting patent licenses. The terms “irrevocable” and
18 “perpetual” are such terms of art.
- 19 12. It was always our concern at IBM that license agreements, even if they specified a
20 duration of the license rights, might be deemed terminable at will by either party. In the
21 Information Technology industry, in which the litigants here operate, several terms
22 have been commonly employed in license agreements to preclude that result, and to
23 indicate the intention of the parties that a patent license was not terminable at will. In
24 many cases, drafters of patent licenses would provide that the licenses were
25 “irrevocable” and/or “perpetual.” The chief purpose of these words was to make clear
that the license grant was not for a fixed term and was not terminable at will. Even if
the license was for a fixed and definite term, calling the license “irrevocable” and/or
“perpetual” was a method of providing further assurance that the licensor could not
unilaterally terminate the license at will or make a claim that it was entitled to do so.
13. However, as was commonly understood within the field of patent licensing, these
words are not intended to, and do not, restrict the grantor’s right to cancel the license
in the event of breach by the licensee. In other words, the commonly understood usage

of these terms of art is that although they convey that the contracts are not terminable at will, they do not negate the right of the grantor to cancel the contract for cause.

14. Parties to a particular license agreement might mutually intend that even a material breach by the licensee would not entitle the grantor to terminate the license, but in such cases, specific language to that effect would need to be added. As commonly understood in the field of patent licensing, mere use of the words “irrevocable” and/or “perpetual” in referring to the duration of the license would not be sufficient to express that intention or accomplish that result. I note that the Patent License Agreement between Timeline and Microsoft contains no language expressly precluding cancellation of the patent license as a grantor remedy for breach of contract by the licensee (Microsoft).

15. Therefore, it is my opinion that an “irrevocable” and “perpetual” license grant may be cancelled or rescinded by the licensor (here Timeline) in the event of a material breach of the contract granting the license by the licensee (here Microsoft). Based on my experience, this would be the expected understanding of patent licensors and drafters of patent licenses in the Information Technology industry during at least the past twenty years in the event of such a breach. At IBM, we were extremely sensitive to such risks and took great efforts to guard against such breaches despite the fact that many of the licenses granted to us were expressly “irrevocable.”

Murtha Decl. ¶¶ 11-15.

As Timeline notes, Washington law permits extrinsic evidence of trade usage to be admitted to assist the court in interpreting a contract, even when a contract’s terms are unambiguous. See Spectrum Glass Co. v. Pub. Util. Dist. No. 1 of Snohomish County, 129 Wn. App. 303, 311 (2005). However, the court finds that Mr. Murtha’s declaration is not sufficient to create a genuine issue of material fact to preclude summary judgment.

It is true that expert opinion “may defeat summary judgment if it appears the affiant is competent to give an expert opinion and the factual basis for the opinion is stated in the affidavit, even though the underlying factual details and reasoning upon which the opinion is based are not.” Walton v. U.S. Marshals Service, 476 F.3d 723, 730 (9th Cir. 2007). However, an expert’s “conclusory report” is not sufficient to raise a genuine issue of material fact. Id. “In the context of a motion for summary judgment, an expert must back up his opinion with specific facts.” United States v. Various Slot Machines on Guam, 658 F.2d 697, 700 (9th Cir. 1981); see also Miller v. Likins, 109 Wn. App.

1 140, 148 (2001) (“It is well established that conclusory or speculative expert opinions lacking an
2 adequate foundation will not be admitted”).

3 In his declaration, Mr. Murtha states that he has been involved in negotiating and drafting
4 “hundreds” of patent licensing agreements. However, his declaration does not reveal his experience in
5 drafting or negotiating agreements where the specific terms “irrevocable” and “perpetual” were used,
6 nor does he indicate that he has been involved in disputes in which the meaning of those specific terms
7 was at issue. At his deposition, he identified only three instances (apparently in the 1970s or early
8 1980s) at IBM in which he was involved in negotiating or drafting a licensing agreement that included
9 the term “irrevocable.”⁶ However, he could not recall any discussion with the licensor regarding the
10 use or meaning of that term, nor could he identify any disputes that arose regarding the term. Mr.
11 Murtha also did not identify any instances in the past 20 years in which he was involved in negotiating
12 a patent license that used the terms “irrevocable” or “perpetual,” notwithstanding his statement in his
13 declaration that the words “irrevocable” and “perpetual” have been terms of art in the patent licensing
14 field for at least the last 20 years. He also testified at his deposition that he has not written or spoken
15 on the meaning of the terms “irrevocable” or “perpetual” in licensing agreements, nor does his
16 declaration identify any surveys or research he has conducted regarding the meaning or usage of these
17 terms.

18 In short, while Mr. Murtha has experience in negotiating and drafting patent licensing
19 agreements, his declaration provides an insufficient factual basis for his opinion regarding the meaning
20 of the specific terms “irrevocable” and “perpetual” in such agreements. In addition, his deposition
21 reveals little experience in using those terms in licensing agreements, particularly in the past twenty
22 years. Under these circumstances, the court cannot find that the conclusory assertions in Mr.

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24 ⁶ It should also be noted that “[t]he practice of one company . . . is generally insufficient to
25 establish a trade usage.” British Int’l Ins. Co. Ltd. v. Seguros La Republica, S.A., 342 F.3d 78, 84 (2d
Cir. 2003); H&W Indus., Inc. v. Occidental Chem. Corp., 911 F.2d 1118, 1122 (5th Cir. 1990).

1 Murtha's declaration regarding trade usage of these terms are sufficient to defeat a motion for
2 summary judgment.⁷

3 In sum, the court finds that the 1999 License Agreement does not permit Timeline to terminate
4 Microsoft's "perpetual, irrevocable, [and] fully paid" license to the patents at issue in this case, even in
5 the event of material breach. In light of this holding, it is not necessary to reach Microsoft's additional
6 arguments that the alleged breaches were not material or that Timeline's purported termination of the
7 agreement was untimely.

8 Therefore, the court grants Microsoft's motion for summary judgment on the portion of its
9 counterclaim that requests a declaratory judgment that Timeline's purported termination of the 1999
10 License Agreement was ineffective. Because Timeline's termination was not effective, the court
11 dismisses Timeline's claims against Microsoft for patent infringement as barred under the 1999
12 License Agreement. Timeline's remedy for any alleged breaches would be to seek damages for breach
13 of contract.

14 B. Alleged Breach of the 1995 SBFM Agreement

15 In the second amended complaint, Timeline alleges that Microsoft breached provisions of the
16 1995 SBFM Agreement. In turn, Timeline argues that a breach of the 1995 SBFM Agreement
17 constitutes a breach of the 1999 License Agreement, which would justify Timeline's termination of the
18 1999 agreement. Timeline alleges that the 1995 Agreement "was incorporated by amendment as a

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20 ⁷ As Microsoft notes, Mr. Murtha's opinion is also difficult to square with his deposition
21 testimony, where he was asked if Timeline would have had the right to revoke the patent license in the
22 event of material breach if the agreement had included the following language: "Microsoft shall have
23 the perpetual right to this License. Microsoft has fully paid for this license. **Timeline may not
24 revoke this license under any circumstances.**" (Emphasis in original). Mr. Murtha testified that a
25 licensor "would not be in a position to make such a revocation" in that situation. As Microsoft
observes, this hypothetical language is essentially indistinguishable in meaning from the 1999
agreement's description of the license as "perpetual," "irrevocable," and "fully paid." Courts have
noted that "an expert's conclusory allegations do not defeat summary judgment where the record
clearly rebuts the inference the expert suggests." Digital Control Inc. v. McLaughlin Mfg. Co., 242 F.
Supp. 2d 1000, 1007 (W.D. Wash. 2002).

1 part of the 1999 Agreement,” (SAC ¶ 37), and that the two agreements “legally constitute a single
2 contract.” (Opp. at 8 n.7).

3 As discussed above, the court finds that even if Microsoft committed a material breach of the
4 1999 License Agreement, Timeline was not able to terminate the irrevocable and perpetual licenses
5 granted to Microsoft in the agreement. As a result, it is not necessary for the court to reach the
6 question of whether a material breach of the 1995 SBFM Agreement could constitute grounds for
7 Timeline to terminate the license granted in the 1999 License Agreement. Even assuming that a
8 material breach of the 1995 agreement could be regarded as a breach of the 1999 License Agreement,
9 such a breach would not provide Timeline with a basis to terminate the irrevocable and perpetual
10 licenses granted to Microsoft in the 1999 License Agreement.

11 C. Supplemental Jurisdiction Over State-Law Claims

12 Finally, Microsoft has moved to dismiss the state-law contract claims between Timeline and
13 Microsoft. Microsoft makes this request pursuant to 28 U.S.C. § 1367(c), which provides that a
14 district court may decline to exercise supplemental jurisdiction over a state-law claim if:

- 15 (1) the claim raises a novel or complex issue of State law,
- 16 (2) the claim substantially predominates over the claim or claims over which the district
17 court has original jurisdiction,
- 18 (3) the district court has dismissed all claims over which it has original jurisdiction, or
- 19 (4) in exceptional circumstances, there are other compelling reasons for declining
jurisdiction.

20 Although Microsoft does not identify which specific provisions of Section 1367(c) it invokes in this
21 case, there would be at least two potential bases under Section 1367(c) for the court to decline
22 supplemental jurisdiction over the state-law contract claims between Timeline and Microsoft.

23 First, Section 1367(c)(3) permits a district court to decline supplemental jurisdiction when it
24 has dismissed all claims over which it has original jurisdiction. Although there are remaining federal
25 claims in this action against ProClarity, there are no remaining federal claims against Microsoft. In

1 some cases, courts have declined to exercise supplemental jurisdiction under Section 1367(c)(3) over
2 state-law claims against a defendant after all federal claims against that defendant have been dismissed,
3 even though federal claims remained against other defendants. See, e.g., Ryan v. Illinois Dep't of
4 Children & Family Servs., 185 F.3d 751, 764-65 (7th Cir. 1999); Spearman v. Tom Wood Pontiac-
5 GMC, Inc., 2001 WL 1712506 at * 7 (S.D. Ind. Dec. 3, 2001).

6 In addition, the “catchall” provision of Section 1367(c)(4) provides that a court may decline to
7 exercise supplemental jurisdiction “in exceptional circumstances” where “there are other compelling
8 reasons for declining jurisdiction.” Having presided over this litigation for nearly two years, the court
9 has little difficulty concluding that this case presents exceptional circumstances and there are
10 compelling reasons for declining supplemental jurisdiction over the state-law claims under Section
11 1367(c)(4).

12 This case was filed in June 2005 and has been complex and unusually contentious from the
13 outset. The state-law claims between Timeline and Microsoft were raised more than a year into this
14 litigation, following Timeline’s purported termination of the 1999 License Agreement in August 2006
15 and its assertion of patent infringement and breach of contract claims against Microsoft. For the
16 reasons discussed above, Timeline should not have brought patent infringement claims against
17 Microsoft in the first place, given the terms of the 1999 License Agreement. Because Timeline and
18 Microsoft are both Washington corporations, the state-law breach of contract claims between the two
19 companies are only in this court by virtue of Timeline’s improper assertion of federal patent
20 infringement claims against Microsoft. The contract claims between Timeline and Microsoft – which
21 are based in part on alleged conduct that Timeline has apparently been aware of for years – should
22 have been brought in state court and only serve to add another layer of complexity and
23 contentiousness to this action.

24 Under Section 1367(c)(4), the court must consider whether declining supplemental jurisdiction
25 would best accommodate values of economy, convenience, fairness, and comity. Executive Software

1 North America, Inc. v. U.S. Dist. Court for Cent. Dist. Cal., 24 F.3d 1545, 1557 (9th Cir. 1994).

2 Here, the court finds that these values weigh strongly in favor of declining supplemental jurisdiction.
3 Comity interests would be served by permitting Washington state courts to resolve state-law contract
4 disputes between two Washington corporations. In terms of judicial economy, this court has not yet
5 expended significant resources on the state-law contract claims and the court sees little basis to
6 conclude that there would be a significant overlap between the state-law breach of contract claims
7 against Microsoft and the federal patent infringement claims against ProClarity. Convenience and
8 fairness to the parties would also weigh in favor of declining supplemental jurisdiction. It would not
9 be inconvenient or unfair to require Timeline and Microsoft to litigate their contract disputes in King
10 County Superior Court, as they previously did in 1999 when a dispute arose under the License
11 Agreement. Although the parties have expended resources in this court conducting discovery
12 regarding the state-law claims, there is no apparent reason why such discovery could not be reused if
13 Timeline chooses to refile its breach of contract claims against Microsoft in state court.

14 Therefore, the court concludes that it should decline supplemental jurisdiction over the
15 remaining state-law claims between Timeline and Microsoft. These claims shall be dismissed without
16 prejudice to refiling in state court.

17 **IV. CONCLUSION**

18 For the reasons stated above, court grants Microsoft's motion for summary judgment and for
19 dismissal of state-law claims. The court finds that Timeline's purported termination of its 1999 Patent
20 License Agreement with Microsoft is not effective and that the 1999 agreement remains in force.
21 Because Microsoft holds a license to the patents at issue under the 1999 agreement, Plaintiff's claims
22 against Microsoft for patent infringement are dismissed with prejudice. Pursuant to 28 U.S.C. §
23 1367(c), the court also declines to exercise supplemental jurisdiction over the remaining state-law
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1 claims and counterclaims between Timeline and Microsoft. The remaining state-law claims and
2 counterclaims in this action are dismissed without prejudice.

3 Dated this 29th day of May, 2007

4
5 s/James L. Robart
6 JAMES L. ROBART
7 United States District Judge
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